



September 2005

Workers' Compensation Fraud Report

For the Quarter Ending June 30, 2005 (4th Qtr. FY 2005)

In spring 2004, the Legislature passed a supplemental budget that authorized the Department of Labor and Industries (L&I) to spend an additional \$798,000 to expand its efforts to combat fraud and abuse in the State Fund workers' compensation system. With the authorization came a requirement that in Fiscal Year 2005 the agency file quarterly reports to the Office of Financial Management and the Legislature, explaining how the money was spent and the return on that investment. This is the fourth and last of those reports, covering April, May and June of 2005. As required by law, the annual report on L&I's fraud prevention activities during FY 2005 will be presented to the Legislature in January.

As predicted, the return on investment (ROI) decreased slightly in the 4th quarter as staff completed testing and training on how to use the agency's new accounts-receivable collection computer system. The return on investment is expected to go up in FY 2006 as collections improve under the new system.

In the 4th quarter of FY 2005 the program spent \$3,627,864 on salaries, benefits and other expenses. During that period, \$26,509,256 in delinquent employer premiums and improper payments to providers and workers was recovered. In addition, there was \$3,431,022 in potential workers' compensation benefit costs that were avoided. That equates to an 8.3 to 1 return on investment, down slightly from the 8.5 to 1 return in the 3rd quarter.

Highlighted activity

- An L&I investigation of a Benton County engineering firm found the company had falsified records on a prevailing wage job by paying workers the prevailing wage and then demanding they pay some of it back. As part of a plea bargain, the company paid two of its employees over \$28,000 in return for having felony charges dropped.
- An administrative fraud order totaling \$110,585 was issued against an Olympia man who set up a construction business while collecting time-loss benefits and claiming he was injured and couldn't work. The case grew out of an anonymous tip L&I received.

- Two medical clinics, with offices in Seattle, are being audited on suspicion that they overcharged L&I over \$140,000.
- A physician in Southwest Washington was immediately suspended from treating injured workers after a review of his medical files showed he had over-prescribed opiates and had provided poor quality treatment that could impair an injured worker's recovery. The state also has suspended his medical license.
- Jefferson County authorities issued a felony warrant for the arrest of Rod Krebs, owner of Rod Krebs Construction, after he continued to employ workers even though L&I had revoked his certification and suspended his contractor's registration. The warrant was based on an L&I audit of Krebs' employment records, which found he failed to report hours worked and pay workers' compensation premiums.

Outreach & Education

The program continued to provide training to contractors on how to know whether workers are employees or independent contractors and on prime contractor liability for premiums. Eight training sessions were held throughout the state in the 4th quarter, attracting 150 attendees.

Fraud cases prosecuted/charged/convicted/sentenced/civil orders issued

Number of cases referred to prosecution.....	4
Number of cases charged.....	4
Number of convictions.....	0
Number sentenced.....	0
Administrative (civil) fraud orders issued.....	38

Fraud prevention and compliance by the numbers

(The numbers listed below include not only fraudulent activity due to misrepresentation, but also recovery of overpayments and compliance efforts to collect delinquent premiums owed by employers)

Worker:

- Assessments.....\$841,283
- Claims overpayment collections.....\$2,067,643
- Cost avoidance.....\$3,415,605

Provider

- Assessments.....\$459,421
- Collections.....\$41,613
- Cost avoidance.....\$15,417

Employer

- Assessments.....\$2,984,706
- Collections.....\$24.4 million

Return on Investment Schedule (4th quarter FY 2005)

<u>Operating Costs</u>	<u>Assessments</u>	<u>Cost Avoidance</u>	<u>Recovery/collection</u>	<u>Return on Inv.</u>
\$3,627,864	\$4,285,410	\$3,431,022	\$26,509,256	8.3 to 1

Assessments: Billings for overpayments, improper billings and for underreported premium payments

Cost Avoidance: Estimated one-year future outlay had payments and benefits not ended as a result of L&I action

Recovery/collections: Money recovered as a result of L&I's compliance and collection activity

Return on investment: A comparison of the operating costs to the dollars recovered/collected and avoided